

Katrina and Rita: Business Lessons Learned



Implications for the Bay Area
Business Community

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Threats to the Silicon Valley

- Earthquake
- Floods
- Wild Land Urban Interface Fires
- Hazardous Materials Accidents
- Terrorism



Systems for Emergency Response

- ICS
- SEMS
- NIMS

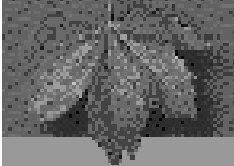


Katrina and Rita and the Silicon Valley

- We do not have hurricanes
- Earthquakes and floods can be regional and have similar impacts on business
 - Continuity: records, power
 - Employees: self, family
 - Supply lines: 1400 road segments will be damaged; SJC will be only operating airport

Issues Impacting Businesses

- Government is a business with no “rainy day fund” and little insurance!
- Tax base
 - Catastrophic losses take tax base down, loss of taxes based on loss of value
 - E.g., if your house burns down you can apply for a reduction of taxes equal to the value of what was lost, or the “improvements” line of your tax bill

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- If your house washes away and the lot is also reclaimed by water, there is nothing left to pay taxes on! So that property is a permanent loss from the tax base.
 - If there is a time when a business facility is not used for any purpose the losses include
 - No real estate taxes because no value while under water
 - No sales tax collected
 - No business tax collected
 - No TOT collected

“After two hurricanes, cities confront economic peril” NY Times 10/22/05

- “Worst municipal finance crisis in US history.”
 - Storms devastated the tax base of the entire region
 - Will effect national municipal bond market
 - Cost of borrowing will rise, meaning fewer projects and purchases, impacts suppliers in business community
 - value of mutual funds and retirement funds that hold municipal bonds goes down, raising employer’s share of annual deposits for pensions
 - J.P. Morgan extended New Orleans \$150 million line of credit to cover their payments due on the \$40 million in bonds – this is like using your credit card to pay your mortgage!



St. Bernard Parish

- School district with 1200 employees now has 12
- Plan to lay off fire and emergency response personnel next
- Laid off 50% of municipal workers, so no road crews or damage assessors to work toward restoration of infrastructure
- Their only income was property tax, and that is mostly gone
 - Realtors report that people are buying drowned homes for \$3,000-\$5,000 because people want to get out, had no money for repairs; caused reassessment of property value and further reductions in tax income.

New Orleans

- School district laid off over 7,000 – 99%
- City laid off 50% of work force
 - City under water, so no demand for services, population gone
- State university system plans 1,000 layoffs, and closure of 2 hospitals in New Orleans with 3,000 employees
- New Orleans usually has income of \$39 million per month in taxes and fees; only income since 8/29 was \$2 million per month from Harrah's! Due to pre-storm tax agreement.

New Orleans

- Usually get \$13 million/month sales tax
 - Federal workers do not pay local TOT or sales taxes when on US government business, so the hotel rooms filled with disaster workers generate no city income
- Usually collect parking fines, speeding tickets, utility taxes – all gone



New Orleans School District

- 120 schools, \$450 mil annual budget
 - Opening 8 schools in November, to cost \$82 million for the year
 - Still owe \$32 million in bond payments
 - Still owe \$80 million in unemployment insurance premiums and employee health benefits
 - Some of the state's share of the district's income is going to other districts where New Orleans children are temporarily living

New Orleans Police Department

- Workers are victims
 - 80% of NOPD's 1,700 officers have lost their homes
 - Most are staying on cruise ships, but when the 60 days is up, where will they go?
 - FEMA usually provides trailers, but no place to put them that has water and sewer service
- Workers deserted posts to care for families (54), and 200 didn't show up during storm and aftermath

State of Louisiana

- What % of the income is GONE?
 - \$3.3 billion lost in taxes and fees to local government
 - \$1.5 billion lost in taxes and fees to the state



State of Louisiana

- State services outside of the disaster area may worsen
 - Personal and business income taxes are greatly reduced
 - 250,000 residents had lost their jobs, no income
 - Businesses have lost customers because they have no money, so their income will be off
 - Welfare costs rise due to unemployment
- State will have to step in to prevent local government bankruptcies

FEMA Assistance: Stafford Act

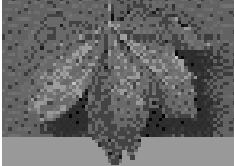
- FEMA has provided \$1 billion for LOANS for government operating expenses – adds to public agency debt burden, effects future borrowing power
- FEMA pays 75% of the cost of public facility repairs as the standard, could raise but not this time – party politics?
 - 9/11 and Hurricane Andrew FEMA paid 100% of public repairs – Republican Mayor/election year
 - Katrina and Rita communities cannot make up the 25%, so can't let contracts for repairs



Economic benefits

- Infusion of Federal money benefiting businesses in recovery work
 - Landstar Systems - \$129.8 million for busses, trucks and planes to move goods for recovery
 - Carmax selling replacement cars to hurricane victims based on car insurance payments
 - Drew Industries of NY makes parts for RVs that are being used as “FEMA trailer park” replacement housing

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- Wachovia Bank said initial relief money transfers to customers' accounts was the fastest ever
 - As of 10/14/05 423,000 checks for \$2358 were sent
 - 3 months rent for households registered with FEMA
 - National average of affordable housing rent
 - Money spent outside disaster areas

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- Businesses in LA, MS and AL getting about 12.3% of the government contract value
 - Alabama-based Cavalier Homes is building 2,300 single section homes for FEMA realizing \$78 million in revenue
 - Problem: many local businesses are one person operations and left out; e.g. one truck haulers can't get debris hauling jobs because they don't carry Workers Comp (premium= \$37,000 per year), and they can't get a state contract without WC coverage

Regional Business Impacts of Rita and Katrina

■ Tourism

- Florida and Mexico experienced a drop in tourists
 - Cancun was evacuated, and Cozumel was closed to cruise ships
 - Cayman Islands occupancy was down 59.8%
- ## ■ Shrimping is gone for now due to environmental damage – pollutants from oil platform damage, urban flooding run-off

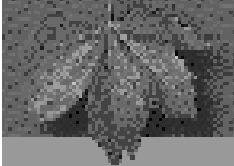
Wider Area Impacts

■ Insurance impacts

- \$125 billion in damages
- \$60 billion in claims
- Many clients have lost their policies, agents' offices are under water, can't settle claims

■ Banking losses

- Bancorp South net income down due to credit losses – 10 cents per share
- US Bancorp gains were absorbed by lower purchases and lower savings

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- Cost of cement and lumber is rising nationwide due to demand for Gulf Coast rebuilding
 - Impacts the price of homes, business buildings
 - Lowers the number of people who can afford a home, businesses that can afford new facilities
 - Lowers the number of remodels/tenant improvements
 - Lowers the number of jobs nationwide in construction industry

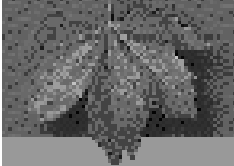


- Milk jug shortage across the US

- Plastic resins used to make plastic milk jugs come from hydrogen production facility in New Orleans
- Raw materials are moved by railroad lines that were damaged in the storms
- Some areas using paper cartons
- FDA relaxing standards for types of plastics used for jugs – allergies? Sensitivities?
 - Children disproportionately impacted due to milk consumption patterns

Energy impacts

- Natural gas rose from \$7.12 in October 2004 to \$12.98 in October 2005 due to Rita
 - 58% of US natural gas production closed as of 10/28/05
 - Rise in cost of goods produced using natural gas
 - Rise in home heating costs is public health issue for chronically ill, infants and elderly
- Gasoline rose to over \$3 across the US
 - Local production lost from damaged platforms
 - Drop in summer travel, including Labor Day holiday weekend-sales tax and TOT losses
 - Rise in cost of running public transit, higher use due to cost of single car commute

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- Trucking industry saw a rise in demand for services to take supplies to the Gulf Coast
 - Higher diesel costs sent profits down, caused cost of shipping to rise
 - Higher diesel sent smaller companies into bankruptcy

Trade Issues

- Port of New Orleans and South Louisiana handle 25% of US international trade, closed until late September
 - balance of payments issue due to food export problems

Agricultural impacts

- By 9/10/05 there was a direct storm loss of \$2 billion to agriculture from lost livestock, sugar cane and rice fields
- Decline in food exports – port closed
 - Midwestern corn, wheat and soybeans are piling up at the point of production due to the close of the Gulf ports
 - Devalues each new bushel
 - Cost of production is up – diesel for tractors, combines and trucks to market
 - Corn sold domestically (e.g., Archer Daniels Midland for corn oil) down in value due to glut on domestic market

Resonates through the whole economy

- Rise in the cost of electricity- use natural gas
- Rise in the cost of goods produced using energy
- Airlines already in financial distress hard hit by fuel increases
- Decrease in discretionary spending, impacts sales of luxuries, toys, electronics and business replacements (e.g. conversion to flat screens)
- Holiday marketing is early this year to get people shopping “before they see their first gas bill.”
Problem is people shop/charge now, but have to pay when they get that gas bill!



Regional Disaster Analysis: Gaertner Group

- “You are going to lose your workforce. People have to find new homes. Think of the ‘intellectual property’ that is being lost.”
- 40% of the Fortune 1000 have inadequate disaster plans
- Smaller companies are less likely to have an adequate disaster plan

Lesson One: Businesses with a BCP Weathered the Storm

■ Northrup-Grumman

- Sent out 3,000 paychecks from their Texas location to their shipyard workers, used Western Union for workers who could not get to their work site
 - Build ships for the Coast Guard and Navy
 - 20,000 workers in New Orleans, Pascagoula and Gulfport
 - Boost to local economy
 - Keep “intellectual capital” in area
 - Were ready to reopen within one week, but no electricity



■ Wal-Mart

- Had 123 damaged stores, reopened 18 within 1 week
 - Shipped recovery supplies to its stores: mops, buckets, bleach and diapers
 - Generated income for employees and sales tax for devastated communities



■ Hibernian Bank

- Had office space and apartments rented with company funds, based on its emergency plan at a location 7 hours from New Orleans
 - Housing was for employees, their families and their pets
 - Computer networks and record keeping staff to Shreveport; executives to Baton Rouge
- Goal: customer access to their money
 - 107 branches effected, 47 re-opened within a week, 39 more within a month; 21 severely damaged, long-term

Hospital Disaster Plans

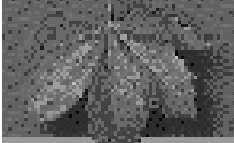
- Joint Commission On Healthcare Accreditation (JCOHA) required “environment of care” plan
 - 9/10/01 VP said guidelines “adequate”
 - 10/21/05 said “outside help within 24-48 hours not a very viable plan.”
 - New planning guide being issued

Hospital successes

- Kaiser had \$6000 satellite phones plus \$500/year for minutes
- Tenet – boats for low-lying facilities
- HCA – air evacuation services, practicing using satellite phones

Florida Hospital plan

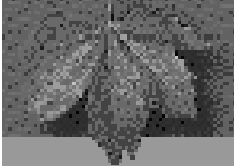
- Communications: cell phones, satellite phones, radio channel, reps from hospitals and nursing homes in the EOC
- Plan includes option to “shelter-in-place”
 - Can’t evacuate an ICU
- Require 4 day supply of food and water
 - JIT effects food and pharmaceuticals in most facilities

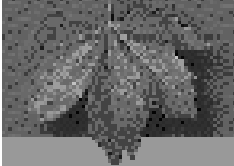


Lesson Two: Preparedness!

Earthquakes have no 'season'

- Have an alternate worksite identified and ready
- Have a pre-disaster agreement with an employee or realtor outside of the disaster area prepared to find needed business facility and employee housing
 - Be sure you have a plan to implement all business license and insurance requirements for the alternate site

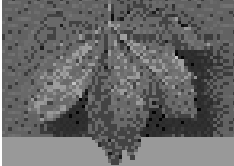
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- Have a supply chain plan including shipping issues
 - Have a customer service continuity of business plan
 - If you let them find their own alternatives they may never come back!
 - Back up all vital records

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- Utilities may be out long term, ensure on-site capability for safe shut down and essential data retrieval
 - UPS, generator with rotated fuel storage
 - **Check frequently**
 - SJ haz mat alarm failure due to loss of trickle charge from loss of 1/2 of 220 power supply. UPS masked until it went down

Lesson #3: Employees are the Key to your Success

- 50% of NOPD did not show up for work at some point due to family/personal losses, 80% are still homeless
- Have an employee and family contact plan when phones don't work
 - Buy ad time on a specific radio or TV station both in the normal work/living area and regional coverage, so employees know what station to monitor
 - Organize a HAM network

- Have an out of area 800# for detailed information on alternate work sites, report to work arrangements
- Have a pre-made labor agreement for staff to default to vacation if there is no work rather than going to disaster unemployment
- Have a plan for delivering pay checks outside of the disaster area (e.g. staff works in SJ but lives in Tracy, Patterson)
 - direct deposit to checking account in a bank with regional presence
 - Western Union

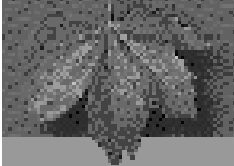


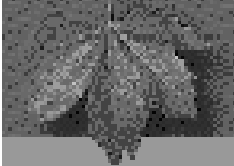
Lesson 4: Individual Preparedness

- **Everyone has to have 72 hours of self-sustainment at all times**
- Invest business time in an emergency preparedness fair
- Distribute educational fliers with paychecks
- Offer CERT training at work on duty time

Critical preparedness items

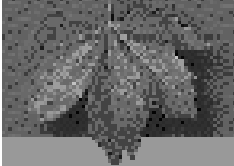
- Car or desk kit with 72 hours of water, prescriptions and OTC medications, simple food, personal comfort items, change and small bills
- Family kit for 72 hours
- Single cache of vital documents
- Out of area/state contact
 - Critical for family reunification, priceless peace of mind – employees won't stay!

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- Pet preparedness – people died in New Orleans because they would not leave their pets
 - Gas tank at least ½ full at all times
 - One credit card for disaster use
 - Child's school emergency contact information up-to-date
 - Realistic emergency care giver with paperwork for medical and transportation
 - Unaccompanied minors become wards of the state



PERI Small and Medium Business Study

- Small and medium sized businesses provide:
 - 53% of private non-farm workforce
 - 47% of all sales
 - 51% of private gross domestic product
 - 199-95 76% of all new jobs

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- Businesses fail 2,3,4 years after the event
 - Business interruption insurance runs out
 - Lost income – no customers
 - Lost assets in business equity



Businesses that Survive

- “Management Mitigations” are in place
 - Customers are not in the disaster impact zone
 - More than one business location to generate income while disaster area recovers
 - Products are not discretionary
 - Businesses are ready to readjust their business model to customer demand

Collaborative for Disaster Mitigation: www.sjsu.edu/cdm

- “Proactive partnership for loss reduction”
- Created to emphasize mitigation and technology transfer
- Track record of effective advice and applications
 - SJSU Foundation BCP
 - Laboratory non-structural retrofit
 - Soft-story inventory
 - Plastic film study
 - Storage rack study
 - Shelf-lip heights



- Reports

- Kobe Earthquake
- Nisqually Earthquake
- San Simeon Earthquake

- Conferences

- BCP
- DRC
- Customized professional meetings for market sectors
- Customized educational materials for the business environment

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